

# Digital tax administration in practice

Key success factors when undertaking digital  
tax reforms

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Written by

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# Today's agenda and speakers

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## Agenda

- ▶ Key success factors
- ▶ “Synapses” Conceptual Framework
- ▶ Synapses in action
- ▶ Questions

## Speakers



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# Key success factors for digital tax reforms

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## Digitalization of tax administration as a key enabler

Commentators see three fundamental changes for tax administrations now and in the future:

- ▶ Regulation and enforcement of tax focusing on inputs rather than outputs
- ▶ Tax administrations becoming agent of wider government policy as government's data warehouse
- ▶ Tax administration to "just happen" - compliance to be invisible and unavoidable

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## Issues for discussion include...

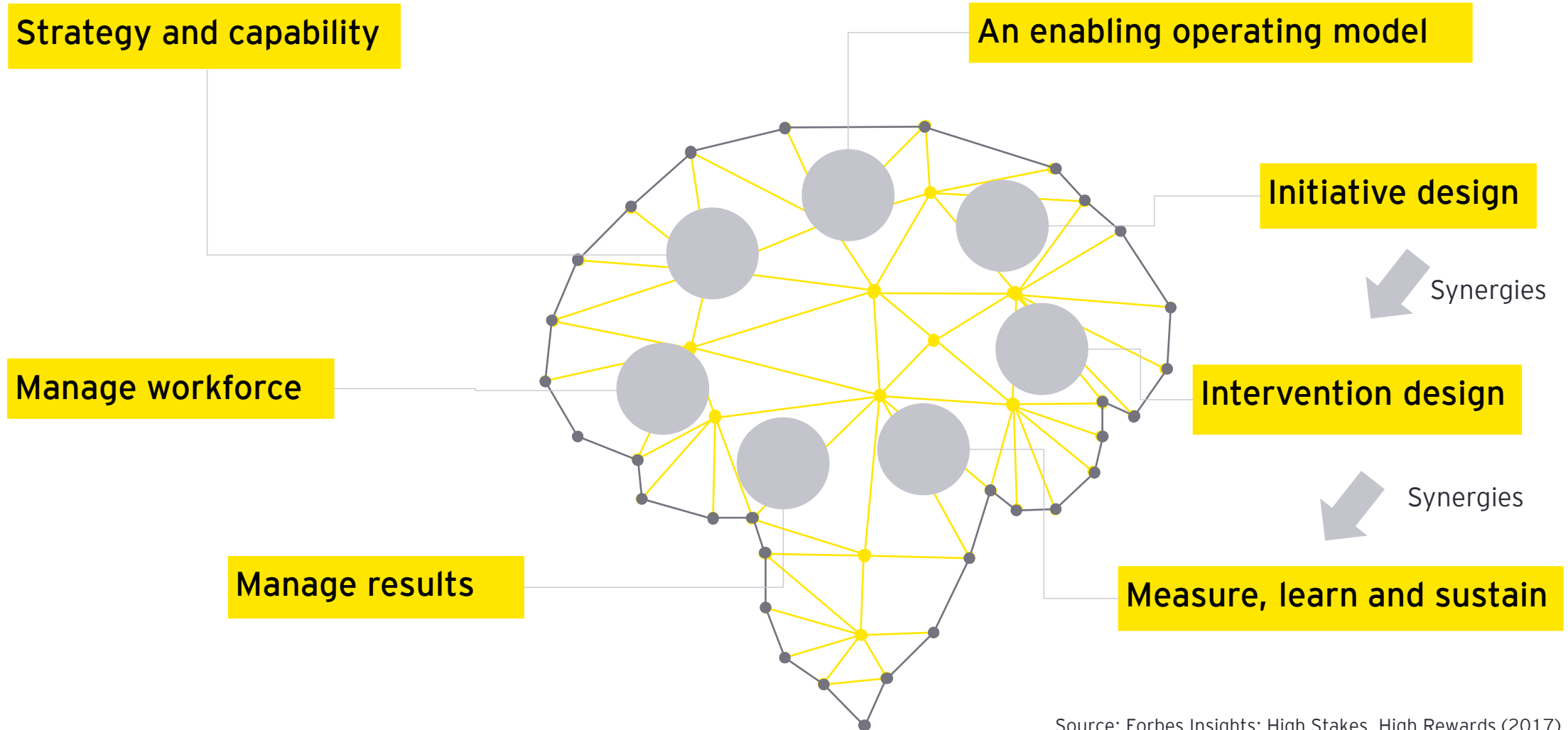
- ▶ Sequencing of IT and institutional reforms
- ▶ Making the tax code more algorithm-friendly
- ▶ Adopting an approach to fit the maturity level of a tax administration and its capacity to absorb technological change
- ▶ Leveraging high quality data for:
  - ▶ Automated decision-making
  - ▶ Whole-of-government policy making
- ▶ Deploying innovative technologies to:
  - ▶ Provide openness
  - ▶ Preserve data privacy

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## Connecting the seven "synapses of digitalization"

- ▶ Digital transformation requires understanding to enable effective implementation
- ▶ Key "synapses of digitalization" include:
  - ▶ Setting the right strategy
  - ▶ An enabling operating model
  - ▶ Managing the workforce
- ▶ Moves towards digitalization require consideration of all seven synapses
- ▶ They suggest a focus on:
  - ▶ Automation
  - ▶ Governance

# The road to digitalization of tax administration requires consideration seven “synapses of digitalization”



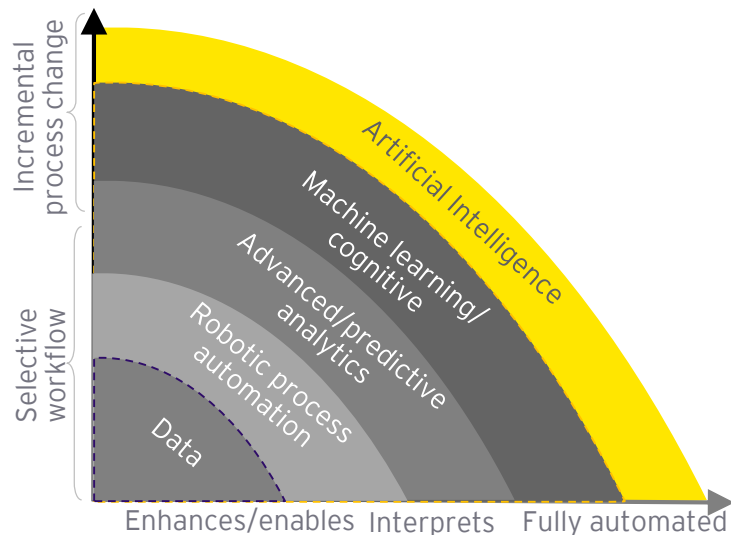
Source: Forbes Insights: High Stakes, High Rewards (2017)

# Strategy and capability

“

75% of Leaders say they rely on a **full range** of enterprise, departmental, and line-of-business advanced analytics groups that operate within a well-aligned framework. That’s a stark contrast with the 17% of challenging companies overall that claim this level of maturity.

Source: Forbes Insights: High Stakes, High Rewards (2017)



## Insights

- ▶ The leading organizations consider themselves to be data-driven.
  - ▶ But “niche” pilots or proofs of concept still possible.
- ▶ Some administrations are creating a dedicated executive role – chief analytics or chief data officer – to oversee data-focused activities.
- ▶ The leaders among revenue administrations will be those with an eye on how to use digitalization to be more strategic.
- ▶ Automation can rarely be addressed in isolation of other strategic imperatives.

## Key pain points

- ▶ Organization, culture and decision-making based more on intuition than data.
- ▶ Lack of collaboration/alignment among management.
- ▶ Legal constraints.
- ▶ Lack of budget/organizational commitment.
- ▶ No appetite for major transformation that may/will result from digitalization.
- ▶ No strong leader to serve as a catalyst for change.
- ▶ Data and analytics are not used to inform changes in strategy.

# An enabling operating model

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While important, promoting an enterprise-wide, data-driven culture doesn't mean that any unit within the tax administration must accept cookie-cutter solutions. After all, each area has unique data needs and desired business outcomes that advanced analytics must address.

## Insights

- ▶ Cross-functional alignment and collaboration is typically the most difficult challenge to overcome when designing and implementing an effective operating model.
- ▶ The 'right' operating model is highly organization- and context-specific - there is often an evolution that occurs as advanced analytics capabilities mature.
- ▶ Some form of Center of Excellence model (i.e., centralized vs. distributed) seen to deliver most value from disruptive technology usage.

## Key pain points

Lack of:

- ▶ Collaboration across functions
- ▶ Change management acumen
- ▶ Training across functions
- ▶ Available technology proficiency
- ▶ Leadership at business-unit level
- ▶ Vision/buy-in from top management
- ▶ Data/knowledge management sharing
- ▶ Awareness that a digital approach can disrupt existing models

# Initiative design

“

We take a laser-like focus to align any use case with the business strategy, which is very clearly articulated in terms of education and research objectives. This gives us a system for scoring proposals— the more a potential use-case aligns with the strategic objectives, the more important it is to the institution.

**Janice Carey**  
Head of Information Management  
Monash University

Source: Forbes Insights: High Stakes, High Rewards (2017)

## Insights

- ▶ Leading organizations treat data as an asset and not a by-product.
- ▶ Design needs a long-term perspective.
- ▶ The design process needs a continuous sharp focus on what the initiative is attempting to accomplish and why.
- ▶ Leaders experiment across many business sectors, then rapidly scale what works.
- ▶ Lagging organizations apply inconsistent approaches for initiative design. Collaboration problems greatly reduce the chances of success.

## Key pain points

Lack of:

- ▶ Alignment between initiative and delivery teams
- ▶ Skilled people to define the right approach
- ▶ Consistent methods/processes
- ▶ Clear responsibilities across functions
- ▶ Early consideration of technology needs
- ▶ Clear and engaged sponsorship
- ▶ Focus on who the 'user' will be and how their day-to-day activities will change



# Intervention design

“

While business intelligence and rules-based approaches had been in use for years, members of the (Irish Revenue's) operational staff have traditionally relied on gut instinct when making decisions. They needed to see the benefits for themselves and then adopt a more evidence-based approach to decisions.

**The tax authority of the future: How analytics can help tax authorities deliver new levels of value - EY, 2017**

Source: Forbes Insights: High Stakes, High Rewards (2017)

## Insights

Four key intervention points to address:

- ▶ Engagement with frontline staff in initiative design
- ▶ Embedding technology into business processes with appropriate thresholds
- ▶ Sustaining technology use
- ▶ Broader feedback loops

Leading organizations:

- ▶ Position data intelligence as supplementary to human intuition, embedding intervention design into daily work

## Key pain points

- ▶ People who need to take action do not possess the required skills to leverage outcomes
- ▶ Lack of adoption/engagement by employees with AI because:
  - ▶ Not historically a part of business operations
  - ▶ Employees feel their subjective intuition/experiences are being challenged
  - ▶ Data used is not of required quality
- ▶ Individual interfaces are not well designed

# Measure and learn

“

With this as a baseline, we then track our progress on a daily basis to see how well we're moving toward those targets.

**Simon Marland**  
Executive head of digital and business intelligence  
Nedbank

Source: Forbes Insights: High Stakes, High Rewards (2017)

For Simon Marland, executive head of digital and business intelligence at Nedbank, South Africa, detailed KPIs are essential. At Nedbank, he created measurements to gauge progress over the next two years, with specific targets for growth in digital business, gains in revenues, and profit improvements.

## Insights

- ▶ Leaders diligently focus on measuring the impact of their advanced technology initiatives - and learn how to adapt.
- ▶ Lagging organizations inconsistently apply performance measurements and often cannot overcome perceived barriers in developing an advanced analytics approach to measure impact.
- ▶ Poor communication of outcomes is a top challenge to value realization.

## Key pain points

- ▶ No visibility into the value created from initiatives.
- ▶ Performance is measured and managed - but inconsistently across functions and lines of work.
- ▶ Definition of organizational outcomes is typically established up front, but measurement is often difficult.

# Manage results

“

Let's say you apply AI and advanced analytics to working out how much extra tax yield can be found in different taxpayer segments.... and the answer is that small business taxpayers are in the firing line.

Is that a politically palatable answer to take back to government?

**Jose Esteves**  
Professor Information Systems  
IE Business School, Madrid

Source: Forbes Insights: High Stakes, High Rewards (2017)

## Insights

- ▶ Many “disruptive” technologies highlight issues which challenge fundamental views on how tax administration is carried out.
- ▶ Public trust is at a low; how can the use of disruptive technologies improve trust?
- ▶ Can the use of data analytics, artificial intelligence be used to measure the performance of tax professionals within the tax administration?

## Key pain points

- ▶ No visibility into the value created
- ▶ Performance is measured and managed inconsistently across functions
- ▶ Definition of business outcomes is typically established up front, but measurement is often difficult
- ▶ Cyber security
- ▶ Political sensitivity

# Manage workforce

“

Analysis of the success or failure of government digital transformation projects tends to focus on the technology that has been introduced. Seldom discussed is the role played by organizational culture and by a government's willingness to embrace new approaches and working practices.

**George Atalla**

**EY Global Government and Infrastructure Leader**

Source: EY/INSEAD, Inside the Black Box: Journey Mapping Digital Innovation in Government (2018)

## Insights

- ▶ Securing the right talent in such a hot market can be a challenge. Do you need to treat technologists differently?
- ▶ How do you deal with a lack of concrete career paths for “disruptive technologists”?
- ▶ How do you address workforce anxieties around automation?
- ▶ Will the workforce “pyramid” look different in the future? Less middle management? More junior professionals?

## Key pain points

- ▶ Retention issues and workforce dissatisfaction around potential impacts of digitalization.
- ▶ Disruptive technologies are highly novel and innovative - meaning that clear and consistent KPIs can be a challenge.

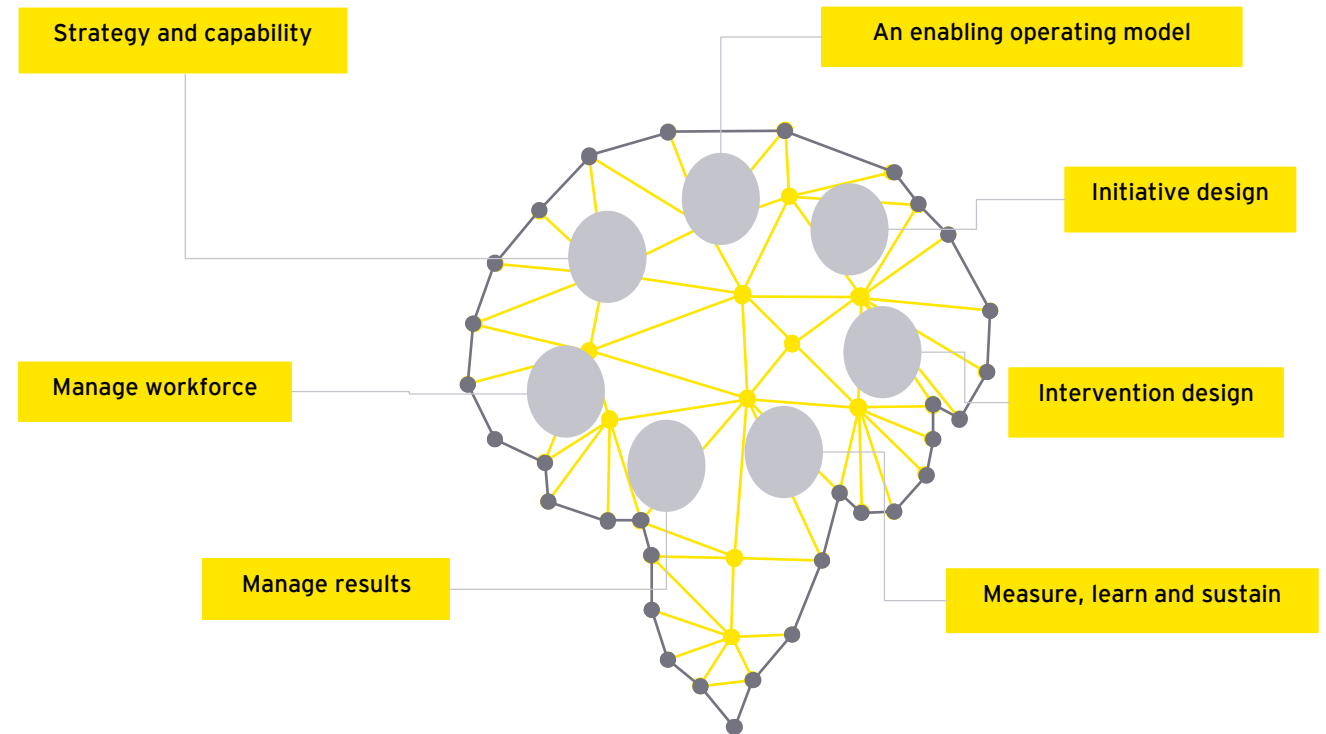
# Root causes for failure in ICT projects

## Strategy and capability

- ▶ Fragmented technology
- ▶ Disconnected and siloed data
- ▶ Reactive to legislative change

## Operating model and results

- ▶ Big bang approach
- ▶ End-user resistance
- ▶ Slow and poor user adoption



# Leading practices for success

## Strategy and capability

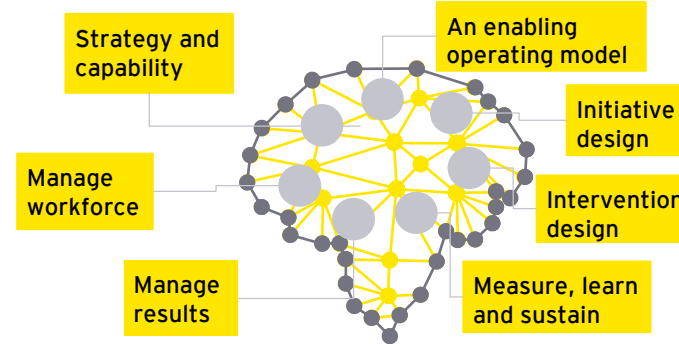
- ▶ Develop strategic roadmap
- ▶ Integrate data planning
- ▶ Build with future in mind
- ▶ Adopt enterprise-wide data strategies
- ▶ Strong leadership

## Enabling operating model

- ▶ Manage “new tech” groups within a framework
- ▶ Bring tech skills close to each department
- ▶ Focused administrative support
- ▶ Recruit advanced analytics ‘leaders’ across business
- ▶ Build a disruptive tech mindset and culture

## Manage workforce

- ▶ Create a talent management strategy
- ▶ Develop IT, statistical, analytical and tax domain skills and experience
- ▶ Use knowledge to drive informed decision-making
- ▶ Consider messaging around process automation impacts



## Initiative design

- ▶ Use pilots, sandpits and phased approach
- ▶ Rich mix of initiatives
- ▶ Consider formal relationship arrangements, teaming, secondments
- ▶ Score proposals with a consistent methodology

## Manage results

- ▶ Change management of stakeholders is key
- ▶ Leverage multiple stakeholders - advisors, software vendors, etc
- ▶ Consider priorities revealed by AI and advanced/predictive analytics

## Measure, learn and sustain

- ▶ Value measurement is integral
- ▶ Manage digitalization performance using defined financial and non-financial measures
- ▶ Use actual results and learnings to make decisions
- ▶ Embed lessons learned across organization
- ▶ Link outcomes to initial policy/guidance

## Intervention design

- ▶ Consider formal change management programs
- ▶ Centers of Excellence to spread initiatives
- ▶ Ongoing learning/training

# Manage results: Improving user adoption

## 1. Provision of incentives

- ▶ Enhance tax certainties by way early confirmation of tax position e.g., shorten processing time.
- ▶ Advocating digital initiatives would be considered as a contribution factor towards a low risk taxpayer.
- ▶ Reduced tax penalty or surcharge of any errors made due to technology issues.
- ▶ Tax incentives/subsidies e.g., technology subsidies for businesses equipping its technology infrastructure in support of the digital initiatives.
- ▶ Extend tax filing due dates.

## 2. Partnering and alliances

- ▶ Connection with mainstream business systems to reduce efforts required to complete forms/extract data.
- ▶ Collaboration with intermediaries e.g. financial institution, insurance companies, charitable organization to pre-fill/collect data and reduce the data to be provided by taxpayers.
- ▶ Easy to use individual and business tax platform enabling taxpayers to manage their tax compliance matters in one single platform.

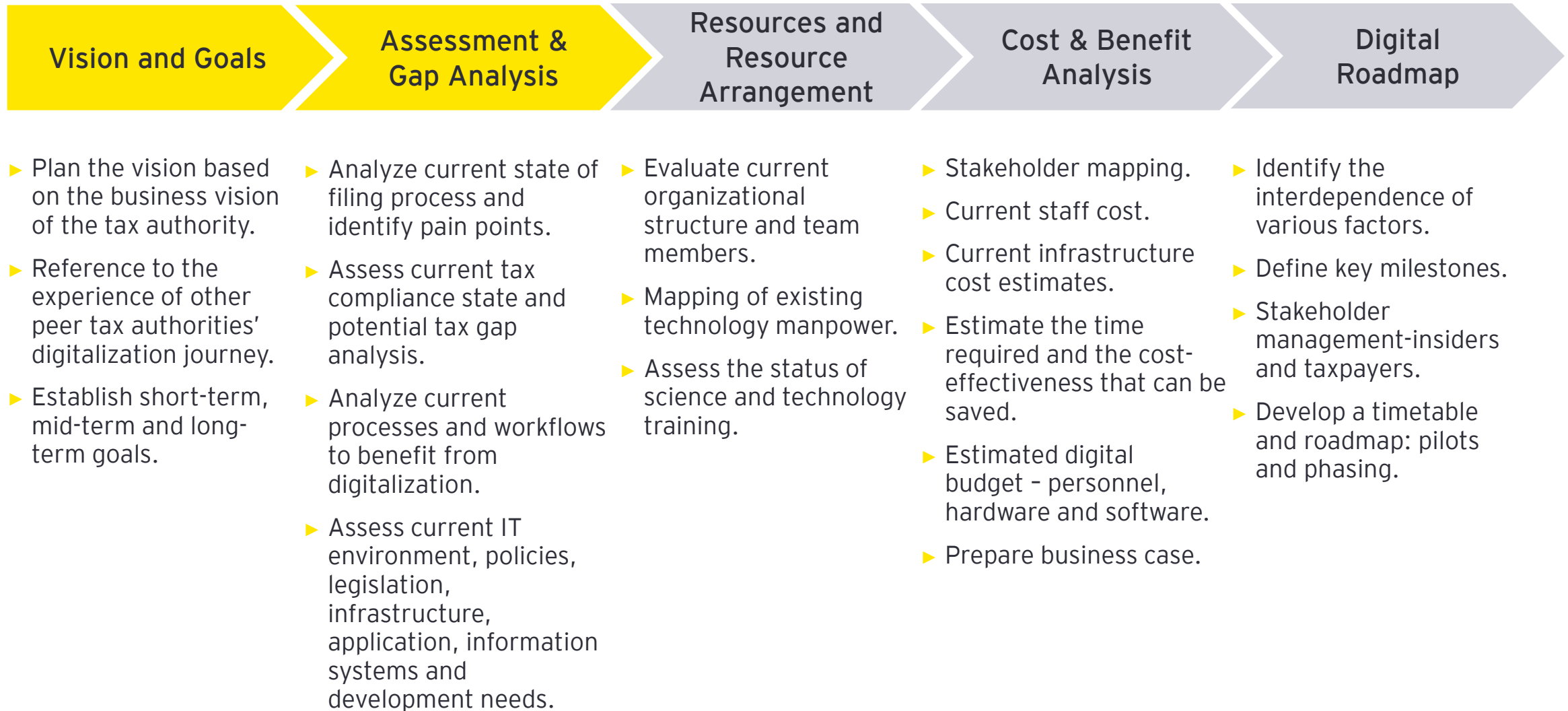
## 3. Better support and user experience

- ▶ Friendly user interface will encourage user adoption.
- ▶ Interactive chatbot to provide 24/7 real-time support to taxpayers.
- ▶ Leverage national-wide digital identity to streamline the log-in processes.
- ▶ Clear technical specification in order to support taxpayers' technology development.
- ▶ Provision of technical support helpdesk to answer any technical issues.

## 4. Social media and promotion

- ▶ Clear articulations of the objectives and what does the digital initiative try to achieve.
- ▶ Promotional video/commercials for promoting social awareness.
- ▶ Team with intermediaries and software vendors e.g., tax advisors as advocates for change.
- ▶ Trigger peer pressures by way of recognition to pioneer in supporting digital initiatives.

# Strategy and capability: Mapping your journey





# Conclusions: Practical issues for successful tax digitalization

## Success factors for digitalization

- ▶ Effective digitalization requires focus on:
  - ▶ Setting the right strategy and objectives
  - ▶ An enabling operating model
  - ▶ Managing the workforce
- ▶ An enabling operating model will:
  - ▶ Remove blockages
  - ▶ Allow for collaboration
  - ▶ Hold project managers accountable
  - ▶ Identify and manage risks
- ▶ Active data management to ensure data is:
  - ▶ Accurate
  - ▶ Fit for purpose
  - ▶ Relevant
- ▶ Talent management strategy:
  - ▶ Tackle cultural barriers through change management strategies
  - ▶ Allow all practitioners to thrive

## Points of emphasis for tax administrations

- ▶ Essentials for success:
  - ▶ High-level support for governance mandate - from Ministers and Tax Commissioners
  - ▶ Supportive and cohesive team identities
  - ▶ Engagement with key stakeholders
- ▶ Strong, service-delivery focused leadership:
  - ▶ Get the right mix between tactical taxpayer service and long-term strategic process/approach change
  - ▶ Appoint project managers and steering committees with sufficient technical expertise
- ▶ Establish trust:
  - ▶ With business taxpayers
  - ▶ With private sector service providers

# Questions ...

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